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TAGS: [ECON](#) [PGOV](#) [YI](#)
SUBJECT: KOSOVO: POST-STATUS ECONOMIC TRANSITION
CHALLENGES LOOM FOR KOSOVO

REF: PRISTINA 998

Classified By: COM TINA KAIDANOW FOR REASONS 1.4 (b) and (d).

¶1. (C) Summary. The Provisional Institutions of Self-Government and the international community have yet to develop serious contingency plans for the economic challenges confronting Kosovo immediately after the resolution of final status. The PISG has allocated only 6.5 million euros for post-status contingency costs, while the USAID-funded macroeconomic team in Kosovo's Ministry of Finance estimates that the budgetary impact could be 50-75 million euros for the first year after status, which does not include Kosovo's debt servicing obligations. In addition, there have been no serious discussions between the PISG and the international community about developing Kosovo's monetary policy, a full-fledged central bank, or whether the euro will remain the national currency. A team of experts from the U.S. Department of Treasury will visit Kosovo in December to assess these issues in cooperation with USAID, but the international community, including the IMF, will likely have to take a more active role to prepare Kosovo for the period following the resolution of final status. End Summary.

KOSOVO LACKS POST STATUS BUDGETARY CONTINGENCY PLANNING...

¶2. (SBU) The Provisional Institutions of Self-Government (PISG) have yet to develop serious contingency plans for the budgetary challenges confronting Kosovo immediately after resolution of final status. The recently approved 2007 Kosovo Consolidated Budget (KCB) has allocated only 6.5 million euros for post-status contingency costs, and does not include future debt service obligations. The USAID-funded macroeconomic team in Kosovo's Ministry of Finance has developed a model that analyzes Kosovo's immediate post-status transition costs over a three-year time period. Using relatively modest assumptions, it estimates that the budgetary impact could be approximately 50-75 million euros for the first year after status. Kosovo's debt service obligations, if the full 800 million euro amount is assumed from Serbia, could total 60 million euros beginning in 2008, although international donors are likely to repay part of the debt on Kosovo's behalf. (Note: Most of Kosovo's debt is to the World Bank; such debt cannot be forgiven but could conceivably be rescheduled to lower the payments over time.)

¶3. (C) According to USAID,s budgetary model, Kosovo,s 50-75 million euro increased budgetary expenditures for the first year after resolution of final status would be the result of creating new ministries (foreign affairs, European integration) and support for a domestic security force, taking over the remaining administrative and executive competencies from UNMIK, implementing decentralization, and providing for essential public services, such as passport issuance and a civil registry. The model does not estimate donor support, debt rescheduling or debt relief. It projects that Kosovo could need over 250 million euros over a three year period after the resolution of final status for the new government expenditures, debt service and a budget deficit due to shrinking cash reserves (and the economic impact of UNMIK's departure) that the KCB alone would be unable to cover.

...AND ALSO PLANS FOR KOSOVO,S MONETARY POLICY

¶4. (C) In addition, there have been no serious discussions among the PISG, International Monetary Fund (IMF), and the European Union (EU) about developing Kosovo,s monetary policy, a full-fledged central bank, or whether the euro will remain the national currency after the resolution of final status. It was anticipated that prior to the resolution of final status, the IMF and EU would help the PISG analyze and plan for the development of Kosovo,s monetary policy and financial infrastructure, or at least lead donor coordination efforts to discuss the establishment of a full-fledged central bank, securities market, and the instruments to help assess risk and borrow money from banks and international financial institutions. One issue of particular concern is that the EU has not fully engaged the PISG on whether Kosovo would retain use of the euro after the resolution of finale status.

USG TO ASSESS KOSOVO,S POST STATUS TRANSITION NEEDS

¶5. (SBU) In response to USOP,s concerns regarding the lack of post-status economic contingency planning, the U.S. Treasury Department will conduct an assessment in Kosovo December 4-15, in cooperation with USAID, to see where USG assistance might be provided in the following areas: budget policy, tax administration, central bank policy (including monetary policy), debt policy, and financial enforcement. Post believes that coordinated assistance from U.S. Treasury and USAID in these areas can help the PISG prepare the contingency plans and policies it will need once final status is determined. USG assistance can also help Kosovo assume responsibilities in these areas where the PISG currently lacks the capacity and experience.

COMMENT

¶6. (SBU) Kosovo will need significant support from the international community to get through a difficult economic transition period with the loss of UNMIK,s economic and administrative contributions (reftel). Treasury's assessment and possible technical assistance, in coordination with USAID,s macroeconomic policy programs, will help the PISG understand and prepare for the economic transition challenges that lie ahead after the resolution of final status. However, the international community here should also do more now to prepare and assist Kosovo; Department may wish to weigh in with IMF to underscore the importance of transition planning in this critical period, as well as tolerance and understanding of Kosovo's budgetary needs in assuming new competencies from UNMIK and implementing the provisions of the Ahtisaari settlement. End Comment.

¶7. (U) USOP does not/not clear this message for release to UN Special Envoy for Kosovo Martti Ahtisaari.

KAIDANOW